

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**CAPITALIZATION OF DOD GENERAL  
PROPERTY, PLANT, AND EQUIPMENT**

Report No. 96-212

August 19, 1996

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**Department of Defense**

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**Acronym**

PP&E                      Property, Plant, and Equipment



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
**400 ARMY NAVY DRIVE**  
**ARLINGTON, VIRGINIA 22202-2884**



August 19, 1996

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)**

**SUBJECT: Audit Report on Capitalization of DoD General Property, Plant, and Equipment (Report No. 96-212)**

We are providing this audit report for review and comment. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. In response to the Deputy Chief Financial Officer's comments on the draft of this report and additional information received from the Washington Headquarters Services and the Ballistic Missile Defense Organization, we revised our recommendation to apply only to general property, plant, and equipment assets. The management comments were responsive and no further comments are required.

Questions on the audit should be directed to Mr. Harlan M. Geyer, Audit Program Director, at (703) 604-9594 (DSN 664-9594) or Mr. Charles J. Richardson, Audit Project Manager, at (703) 604-9582 (DSN 664-9582). See Appendix C for the report distribution. Audit team members are listed inside the back cover.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 96-212  
(Project No. 6RA-2014.01)

August 19, 1996

### Capitalization of DoD General Property, Plant, and Equipment

#### Executive Summary

**Introduction.** The audit was performed as part of the Audit of the Consolidated Financial Report on Department 97 Appropriations (Project No. 6RA-2014). The DoD capitalization threshold has changed five times since FY 1984 and has increased from \$1,000 to \$100,000 per unit as of FY 1996. DoD accounting policy provides that assets, once capitalized at an authorized threshold, shall continue to be capitalized even though capitalization thresholds may change. The issues in this report significantly affect ongoing efforts of DoD financial managers to comply with the Chief Financial Officers Act of 1990 (Public Law 101-576) and to streamline the accounting methodology for assets presented in DoD financial statements. This audit did not include capitalization criteria for assets on Defense Business Operations Fund financial statements. Additionally, this report does not discuss criteria for inclusion or exclusion of assets from local property books.

**Audit Objective.** The audit objective was to assess DoD financial information and accounting records that financial managers used to support the financial statements required by the Federal Financial Management Act of 1994.

**Audit Results.** In accounting for assets, the DoD Components capitalized and retained in the financial records low-cost items that were below the current capitalization threshold. Therefore, the \$9.6 billion value of Department 97 Military Equipment Account reported for FY 1995 is of limited utility for financial management purposes.

**Summary of Recommendations.** We recommend that one capitalization threshold be applied to DoD general property, plant, and equipment (excluding Defense Business Operations Fund accounts) assets and that all items valued under that threshold be purged for the purposes of financial statement reporting. A complete discussion of management comments is included in Part I, and complete texts of the comments are included in Part III.

**Management Comments.** The Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), agreed that the recommendation had merit, although he pointed out that the wording was overly broad. The Deputy Chief Financial Officer also commented that action on the recommendation should be deferred until the Office of Management and Budget promulgated guidance to implement new policies related to general property, plant, and equipment in financial statement reporting.

**Audit Response.** In response to comments from the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), and additional information received after concluding the audit, we revised our recommendation to apply only to general property, plant, and equipment. We agree that additional guidance is needed and will work with the Government-wide Task Force on Audited Financial Statements to expedite that guidance.

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## **Part I - Audit Results**

## **Audit Results**

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### **Audit Background**

The audit was performed as part the Chief Financial Officers Act of 1990 (Public Law 101-576), which established requirements for Federal organizations to submit audited financial statements to the Director, Office of Management and Budget. Public Law 103-356, "The Federal Financial Management Act of 1994," requires DoD and other Government agencies to prepare consolidated financial statements for FY 1996 and each succeeding year. In a memorandum dated June 6, 1995, the DoD Deputy Chief Financial Officer advised DoD Components of the FY 1996 requirement to prepare and submit financial statements in accordance with the Federal Financial Management Act of 1994.

### **Audit Objective**

The audit objective was to assess financial information and accounting records used to support the financial statements prepared to comply with the Federal Financial Management Act of 1994. Appendix A provides details on the audit scope and methodology.

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## **Capitalization of General Property, Plant, and Equipment**

In accounting for assets, the DoD Components capitalized and retained in their asset equipment accounts immaterial (low-cost) items that were below the current capitalization threshold. Low-cost items were retained in the equipment accounts because the DoD accounting policy for capitalizing equipment requires that items formerly capitalized at lower or prior thresholds must be retained in the accounting records as a capital asset rather than be purged from the account when the threshold is changed by Congress. Specifically, since FY 1984, the accounting policy has specified that the DoD Components should use six materiality thresholds, ranging from \$1,000, as established before 1985, to \$100,000, as established in 1996. As a result, the Department 97, Defense Agency Equipment Account, contains a mix of items, some material and some immaterial in value. Consequently, the 1995 Department 97 Military Equipment Account value of \$9.6 billion is of limited utility for financial management purposes.

### **DoD Capitalization Criteria**

DoD 7000.14-R, volume 4, "Financial Management Regulation," January 1995, contains capitalization criteria for DoD fixed assets. The criteria for capitalization are based on generally accepted accounting principles, and the criteria apply at the time of acquisition. Equipment is capitalized when it is recorded as an asset in financial records. The acquisition cost of the asset is the basis for capitalization, regardless of whether the source of funding is from Procurement funds or some other source, such as Research, Development, Test, and Evaluation funds. The cost of equipment that is not capitalized is recorded as a current operating expense.

**DoD Policy for Capitalization Thresholds.** The DoD capitalization threshold (materiality) is identical to and automatically changes with the funding threshold used by Congress to distinguish between investment and operating appropriations. Volume 4 states that assets capitalized at a previous capitalization threshold shall continue to be capitalized at the previous capitalization threshold.

**Application of Capitalization Criteria.** The DoD Components have generally followed the DoD capitalization criteria in effect at the time assets were acquired. However, the continued use of changing thresholds has resulted in inconsistent implementation by the DoD Components, particularly in reporting investments and expenses and in maintaining assets at historical cost in financial records.

## Capitalization of General Property, Plant, and Equipment

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**Congressionally Related Changes in the DoD Fixed Asset Capitalization Thresholds.** Table 1 shows the fiscal years and the various capitalization thresholds.

Table 1. Capitalization Thresholds	
<u>Fiscal Year</u>	<u>Threshold</u>
Before 1985	\$ 1,000
1985	5,000
1992	15,000
1994	25,000
1995	50,000
1996	100,000

The Federal Accounting Standards Advisory Board stated in the Statement of Recommended Accounting Standards, Number 6, "Accounting for Property, Plant, and Equipment," September 1995, that capitalization thresholds should be set by each Federal Department based on the financial and operational conditions of that Department. Once established, the threshold should be applied and disclosed in financial reports.

**Determining Asset Materiality.** Congress established the operating expense threshold at \$100,000 for FY 1996. DoD management has historically also used the operating threshold level as the capitalization threshold. Therefore, DoD management has established that fixed assets acquired at a cost less than the capitalization threshold are not considered material for accounting purposes. Additionally, DoD 7000.14-R guidance states that DoD Components' financial records will account for fixed assets that were capitalized using prior year criteria. Consequently, DoD Components may have capitalized assets at six different thresholds, ranging from \$1,000 to \$100,000. DoD 7000.14-R guidance on capitalization results in inconsistent applications of asset valuations for financial statement presentation. Therefore, we believe that one threshold should be applied to prior year acquisitions of fixed assets, specifically to general property, plant, and equipment (PP&E).

**Inconsistent Application of Capitalization Criteria.** Since 1985, DoD Components have capitalized fixed assets using different valuation criteria established by Congress. In some cases, the DoD Components correctly applied the capitalization criteria that were prescribed at the time; in other instances, the DoD Components incorrectly applied the capitalization criteria. For example, we reviewed several cases for which the total transaction value of a purchase instead of the individual unit cost was used in determining the basis for capitalizing assets. Using transaction values, DoD Components capitalized the acquisition of items, such as computers, office furniture, and fabric, as one purchase (transaction). Table 2 shows items that were capitalized because the

## Capitalization of General Property, Plant, and Equipment

items either met a historical threshold, by application of the total transaction value of all items purchased or unit cost, or did not meet any threshold and were capitalized by mistake.

**Table 2. Items Capitalized in Equipment Accounts**

<u>Item Description</u>	<u>Acquisition Date</u>	<u>Acquisition Amount</u>	<u>Unit Cost</u>	<u>Capitalization Threshold</u>
<b>Capitalization By Transaction Value</b>				
Chair, Task	1994	\$20,400	\$ 340 each	\$25,000
Chair, Guest	1994	40,723	211 each	25,000
Fabric	1994	1,008	18 per yard	25,000
386 Computer	1991	17,994	2,999 each	5,000
Color Monitor	1990	5,864	733 each	5,000
<b>Capitalization by Single Item Acquisition</b>				
Oscilloscope	1985	\$ 1,800	\$ 1,800	\$ 1,000
Vehicle	1989	21,415	21,415	5,000
Vehicle	1990	12,072	12,072	5,000
Copier	1993	23,920	23,920	15,000
<b>Capitalization by Mistake</b>				
Wastebasket	1993	\$1,825	\$37	\$25,000
Chair	1994	73	73	50,000

**Accountability Through the Property Book.** The criteria that apply to capitalization of fixed assets in financial records should not be construed to apply to property book records. Volume 4 states that DoD property that does not meet the capitalization criteria should still be recorded in property records for control purposes. Such property includes items considered sensitive, subject to pilferage, or needing control under other locally determined rationale. Whereas it is reasonable that all capitalized PP&E items should appear on the property book, there is no similar rationale for capitalizing all property book items. As financial records become more streamlined, the criteria for the consistent reporting of higher valued assets in financial statements increasingly differ from the criteria for inclusion of assets in the property books. The property book criteria are based on the need for local control and accountability of sensitive assets. The property books will include many assets with lower values as well as the higher valued items included in the financial statements.

### Conclusion

The Defense agencies' and Military Departments' equipment asset accounts contain assets that have been capitalized using varying capitalization thresholds. Also in many cases, DoD Components have inconsistently implemented DoD policy for capitalizing assets, causing inaccurate data to be reported in the financial records. Accounting policy for the valuation of PP&E needs to reflect a streamlined approach that promotes the consistency of the application of one capitalization threshold for financial statement presentations.

### Recommendation, Management Comments, and Audit Response

**Revised Recommendation.** We revised the recommendation because of additional information provided by the Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) related to the Federal Accounting Standards Board recommended treatment of assets, as well as, the expressed desire of the Washington Headquarters Services and the Ballistic Missile Defense Organization to streamline the guidance for asset valuation.

We recommend that the Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller), direct the DoD Components to apply only one capitalization threshold to general property, plant, and equipment asset accounts and to adjust financial records by purging assets below the chosen threshold.

**Deputy Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) Comments.** The Deputy Chief Financial Officer stated that the draft report recommendation appeared to have merit; however, he recommended that action be deferred, pending the results of deliberations by the Government-wide Task Force for Audited Financial Statements. DoD will be required to change the accounting methodology for PP&E based on recommendations from the Federal Accounting Standards Board to categorize PP&E either as general PP&E, Federal Mission PP&E, Heritage, or Land. Of the four categories, only general PP&E will be reported in the balance sheet (Federal Mission PP&E, Heritage, and Land will be reported as Stewardship information). Most of the current PP&E in the DoD will be categorized as Federal Mission PP&E, and only a small amount of the DoD PP&E resources would be categorized as general PP&E assets subject to capitalization requirements. The Deputy Chief Financial Officer believed that it was premature to attempt to implement new policies for PP&E until the Office of Management and Budget provides official guidance for FY 1997 financial statements and property reporting requirements. For the complete text of the comments, see Part III.

**Audit Response.** In response to the Deputy Chief Financial Officer's comments and additional information received from the Ballistic Missile

## Capitalization of General Property, Plant, and Equipment

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Defense Organization and the Washington Headquarters Services, we revised the recommendation to apply only to general PP&E. Valuation of general PP&E is a primary concern of the Defense agency financial management community. About \$9 billion of general PP&E was included in the Other Defense Organizations portion of the FY 1995 consolidated DoD adjusted trial balance submission to the Department of the Treasury. Changes to capitalization thresholds and PP&E valuation that are made to existing DoD accounting policy will take time to implement in the Defense accounting offices. Therefore, we believe that a prompt policy change is needed for DoD accounting offices to successfully implement a change in accounting for the general PP&E to be included in the FY 1997 financial statements.

After we concluded our audit, we learned that in March 1994, the Comptroller of the Army requested that the Army be allowed to capitalize all of its assets at the then current capitalization criteria of \$25,000, regardless of procurement date. In May 1994, the Deputy Chief Financial Officer, Under Secretary of Defense (Comptroller), responded and did not grant an exception to reporting equipment based on the capitalization threshold in effect at the date of acquisition. However, the Deputy Chief Financial Officer stated that if the Army could not track and report equipment based on the capitalization threshold in effect at the date of acquisition, then the Army should disclose the method used to capitalize equipment in footnotes to financial statements. In FY 1995, the Army used the then current capitalization threshold of \$50,000 and disclosed the use of the \$50,000 threshold in the footnotes to the FY 1995 financial statement. In our opinion, the Army has adopted a streamlined approach to asset valuation and other DoD components should follow suit before the FY 1997 financial statements are formulated.

We will work with the Government-wide Task Force on Audited Financial Statements, on which we are members, to expedite additional guidance needed before the DoD revises its policies.

Although not required to comment, the Ballistic Missile Defense Organization and the Washington Headquarters Services provided the following comments on the recommendation to use one threshold. For full text of those comments, see Part III.

**Ballistic Missile Defense Organization Comments.** The Deputy Director, Financial Management, concurred with the recommendation to establish a uniform level of asset capitalization and to eliminate how dollar value assets were previously capitalized. The Deputy Director noted that it seemed inappropriate to capitalize computer equipment just because it was configured into a total system (local area network) that cost more than \$100,000. The Deputy Director suggested that only standalone end items that cost more than \$100,000 be capitalized.

**Washington Headquarters Services Comments.** The Director strongly concurred with applying one capitalization threshold and noted it would facilitate efforts to implement related recommendations in another Inspector General, DoD, audit report related to proper capitalization of assets.

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## **Part II - Additional Information**

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## Appendix A. Audit Process

**Scope and Methodology.** We reviewed the DoD accounting policy in DoD Directive 7000.14-R, volume 4, pertaining to the capitalization of fixed assets in the financial records of general fund organizations. We did not review the capitalization of fixed assets included in Defense Business Operations Fund organizations. We reviewed information from asset accounts of the Defense Advanced Research Projects Agency, the Defense Information Systems Agency, the National Security Agency, and the Washington Headquarters Services that had been obtained during audits at those agencies in preparation for 1996 financial report audit work. Specifically, the field work for this report came from the Audit of the Consolidated Financial Report on Department 97 Appropriations (Project No. 6RA-2014); Audit of the Financial Management at the Defense Advanced Research Projects Agency (Project No. 6RF-2004); Audit of the Accounting for the National Security Agency (Project No. 6RF-2007); Audit of the Financial Management at the Washington Headquarters Services (Project No. 6RF-2001); and Audit of the Defense Information Systems Agency Appropriated Property, Plant, and Equipment Accounts (Project No. 5RF-6010.12). We reviewed fixed assets that were capitalized by the respective organizations using different interpretations of capitalization criteria. Reviews of the management control programs were performed in each of the above referenced audits, and we did not perform additional reviews. We did not use statistical sampling procedures to test the validity of accounting records.

**Computer-Processed Data.** We used the computer-processed information related to fixed asset accounts and researched the supporting documentation to verify the validity of the information.

**Audit Period, Standards, and Locations.** We performed this financial-related audit from May 8, to May 15, 1996, in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Appendix B lists the organizations we visited or contacted.

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## **Appendix B. Organizations Visited or Contacted**

### **Office of the Secretary Defense**

Under Secretary of Defense (Comptroller), Washington, DC  
Deputy Chief Financial Officer, Washington, DC

### **Other Defense Organizations**

Defense Advanced Research Projects Agency, Arlington, VA  
Defense Finance and Accounting Service Center, Indianapolis, IN  
Defense Accounting Office, Washington Headquarters Services, Arlington, VA  
Defense Information Systems Agency, Arlington, VA  
National Security Agency, Fort Meade, MD  
Washington Headquarters Services, Arlington, VA

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant to the Secretary of Defense (Public Affairs)  
Director, Budget and Finance, Washington Headquarters Services  
Director, Defense Logistics Studies Information Exchange

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Ballistic Missile Defense Organization  
Director, Defense Advanced Research Projects Agency  
Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland Center  
Director, Defense Finance and Accounting Service Denver Center  
Director, Defense Finance and Accounting Service Indianapolis Center  
Director, Defense Intelligence Agency  
Inspector General, Defense Intelligence Agency  
Director, Defense Investigative Service  
Director, Defense Information Systems Agency  
Director, Defense Logistics Agency  
Director, Defense Mapping Agency  
Director, Special Weapons Agency

## **Other Defense Organizations (Cont'd)**

Director, National Security Agency  
Inspector General, National Security Agency  
Director, On-Site Inspection Agency

## **Non-Defense Federal Organizations and Individuals**

Inspector General, Department of Education  
Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

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## **Part III - Management Comments**

# Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100



JUL 29 1996

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT  
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Capitalization of DoD Fixed Assets  
(Project No. 6RA-2014.01)

This office has reviewed the subject draft audit report and, generally agrees that the recommendation in the report has merit. Specific comments are provided below.

**DoDIG Recommendation.** We recommend that the Chief Financial Officer, Office of the Under Secretary of Defense (Comptroller) direct the DoD Components to apply only one capitalization threshold to asset accounts and to adjust financial records by purging assets below the chosen threshold.

**OUSD(C) Comments.** The intent of the recommendation appears to have merit; however, action on this recommendation is being deferred by this office pending the result of deliberations by the Governmentwide Audited Financial Statements Task Force and the promulgation of guidance, by the Office of Management and Budget (OMB), regarding implementation of governmentwide financial statement reporting requirements for property.

By way of background, the Federal Accounting Standards Advisory Board (FASAB) recently recommended Federalwide accounting standards in the areas of "*Accounting for Property, Plant, and Equipment*" and "*Supplementary Stewardship Reporting*." These pronouncements, once promulgated by the OMB as authoritative Federalwide policy, will have a significant and profound affect on the manner in which the Department accounts for, and reports on, assets in financial records. As a minimum, these pronouncements will require the Department to categorize property, plant, and equipment (PP&E) assets as either (1) general PP&E, (2) Federal mission PP&E, (3) heritage, or (4) land. Additionally, the pronouncements will require that general PP&E be reported in the balance sheet; and Federal mission PP&E, heritage, and land be reported on the a new annual report of Stewardship information.

To address the emerging issues associated with these, and other FASAB pronouncements, a Governmentwide Audited Financial Statements Task Force, with its many subgroups, was established. One subgroup--Property, Plant, and Equipment (PP&E) Subgroup--currently is addressing accounting and auditing issues associated with PP&E. In particular, issues related to Federal mission PP&E, i.e., DoD weapons systems and related support equipment, are under review by the PP&E Subgroup.

It could be expected that, at the conclusion of the Task Force's deliberations on such matters, a preponderance of PP&E within the Department might be categorized as Federal mission PP&E and reported as Stewardship information on the Department's financial statements. If so, it could be anticipated that only a modicum of the Department's PP&E resources would be categorized as general PP&E assets subject to capitalization (and depreciation) requirements.

This office believes that it is somewhat premature to prospectively ascertain the outcome of such proceedings. Until the full magnitude of the potential impact of the deliberations of the Task Force on PP&E are determined, and OMB guidance is provided, it does not appear feasible, or desirable, for the Department to attempt to implement new policies and/or thresholds for such assets. (This is especially so, when guidance is expected to be available prior to the preparation of FY 1997 financial statements.) In the meantime, this office proposes to retain the Department's current policy relative to the capitalization threshold. Once a final determination has been made by the Task Force and the OMB, this office will reconsider the merits of the recommendation contained in the subject DoDIG draft audit report.

Thank you for the opportunity to provide comments on this draft report. We look forward to continuing to work with your office on this matter.

Questions regarding this matter may be directed to Mr. De W. Ritchie, Jr. He may be reached on (703) 697-3135.



Alvin Tucker  
Deputy Chief Financial Officer

# Ballistic Missile Defense Organization Comments



DEPARTMENT OF DEFENSE  
BALLISTIC MISSILE DEFENSE ORGANIZATION  
7100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-7100

POF

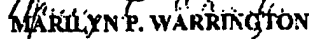
May 24, 1996

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL

SUBJECT: Draft Audit Report, Capitalization of DoD Equipment Assets

In response to the attached subject report received May 20, 1996, BMDO concurs with the recommendations that will establish a uniform level of asset capitalization and eliminate low dollar value assets that were previously capitalized. However, BMDO recommends the audit report also address the situation of capitalization of equipment that is considered to be an Investment only, because the cost of the "total system" exceeds the Expense/Investment criteria. This is a typical situation when computer equipment is purchased and configured into a local area network (LAN). If the total cost of all of the LAN components is in excess of \$100,000, then the equipment must be purchased with "Investment" funding; however, the majority of the LAN equipment is Personal Computers which cost only a few thousand dollars each. It would seem to be inappropriate to capitalize the LAN solely because the "total system" costs more than \$100,000. Perhaps the audit report could be amended to clarify the intent to capitalize only stand-alone end items that cost \$100,000 or more.

If you have further questions, please feel free to contact Ms. Linda Stewart at 703/693-1641.

  
MARILYN P. WARRINGTON  
Deputy Director  
Financial Management

Attachment:  
As Stated

# Washington Headquarters Services Comments



DEPARTMENT OF DEFENSE  
WASHINGTON HEADQUARTERS SERVICES  
1155 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1155



20 JUN 1996

MEMORANDUM FOR DoD INSPECTOR GENERAL  
DIRECTOR, READINESS AND OPERATION SUPPORT

SUBJECT: Audit Report on the Capitalization of Washington Headquarters Services  
Military Equipment (Project No. 6RF-2001)

The subject draft audit report has been reviewed and the following comments are provided as per your request.

WHS partially concurs with recommendations 1, 2, and 4. While we agree that the Equipment in Use account is overstated, we do not agree on the amount. As stated in the audit report, WHS has taken aggressive actions to more accurately present the amount of Equipment in Use in its financial statements. However, to "make appropriate accounting entries" as stated in the audit report based on numbers presented in a Fiscal Year 1994 trial balance would require extensive research and be very labor intensive.

Refers to  
Inspector  
General,  
DoD, Report  
No. 96-194

There is another draft audit report on the Capitalization of Fixed Assets (Project No. 6RA-2014.01) that recommends that one capitalization rule apply to DoD asset accounts, and that all items valued below that threshold be purged for the purpose of financial reporting. We strongly concur with that recommendation, adoption of which would drastically minimize the amount of work required to adhere to the recommendations presented in the subject draft report on Project No. 6RF-2001.

WHS concurs with recommendation 3 of the subject audit report. Based on the adoption/rejection of the recommendation in the audit report on Project No. 6RA-2014.01, WIIS will establish appropriate controls within 60 days of that decision to ensure that fixed assets are properly capitalized and presented accurately in financial statements.

Refers to  
Inspector  
General,  
DoD, Report  
No. 96-194

My point of contact for this audit report is Mr. William Bader who can be reached at 703-614-0971.

We appreciate the opportunity to provide these comments.

D. O. Cooke  
Director



## **Audit Team Members**

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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Harlan M. Geyer  
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Ralph S. Dorris  
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Nancy C. Cipolla

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**A . Report Title:** Capitalization of DOD General Property, Plant, and Equipment

**B. DATE Report Downloaded From the Internet:** 11/23/99

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Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

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